

## Message Text

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PAGE 01 BELGRA 05463 121530Z POSS DUPE  
ACTION EUR-12

INFO OCT-01 ISO-00 EB-08 COME-00 TRSE-00 OMB-01 STR-04  
INT-05 GSA-02 OPIC-03 CIAE-00 DODE-00 PM-05 H-01  
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SS-15 USIA-06 AID-05 FRB-03 XMB-02 /092 W  
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R 120900Z AUG 77  
FM AMEMBASSY BELGRADE  
TO SECSTATE WASHDC 0000

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E.O. 11652: N/A  
TAGS: ETRD, ESTC, EFIN, YO  
SUBJECT: INTENSE ECONOMIC PREPARATION FOR KARDELJ VISIT

SUMMARY: IN CONVERSATION AUGUST 3, BOZIDAR CRNJAK, FONMIN'S  
DEPUTY DIRECTOR FOR NORTH AMERICAN AFFAIRS, TOLD ACTING  
ECON COUNS THAT FONMIN ECONOMISTS BUSY PREPARING VOLUMINOUS  
ECONOMIC MATERIAL FOR EDWARD KARDELJ'S VISIT. VISIT MAY BE  
SEEN BY YUGOSLAVS AS CHANCE TO PUSH FOR SIGNIFICANTLY HIGHER  
LEVEL OF ECONOMIC COOPERATION. END SUMMARY.

1. ACCORDING TO CRNJAK, VISIT WILL HAVE STRONG, PERHAPS  
PREDOMINANT, ECONOMIC FOCUS. WHILE WE DOUBT IT WILL PREDOMINATE,  
KARDELJ WILL CERTAINLY PLACE HIGH PRIORITY ON INCREASING  
TRADE AND INVESTMENT. RECENT HEIGHTENED GOY INTEREST IN CEMOVIC/  
MOORE SUPERGUARANTEE NEGOTIATIONS AND THEIR ASSURANCES THAT  
STRATEGIC ITEMS DIVERSION REPORT WILL BE IN OUR HANDS BY  
SEPTEMBER, MAY BE PART OF EFFORT TO GET LINGERING ECONOMIC  
PROBLEMS OUT OF WAY BEFORE KARDELJ VISIT. CRNJAK DESCRIBED  
KARDELJ AS LOOKING OVER HIS MATERIAL "VERY STUDIOUSLY".

2. KARDELJ WOULD THEN BE IN POSITION TO BEGIN FROM SCRATCH  
IN GETTING U.S. TO PARTICIPATE IN NEW FORMS OF ECONOMIC  
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PAGE 02 BELGRA 05463 121530Z POSS DUPE

COOPERATION--PERHAPS INCLUDING MASSIVE EFFORT ON PART BOTH  
GOVERNMENTS TO INCREASE MUTUAL TRADE WHILE RETAINING ROUGH  
TRADE BALANCE.

3. WE HAVE HEARD FROM SEVERAL YUGOSLAV SOURCES LATELY THAT THE  
ANNUAL VALUE OF OUR TWO-WAY TRADE (NOW 700-800 MILLION DOLLARS)  
SHOULD BE, IDEALLY, INCREASED TO AT LEAST 1.3 BILLION DOLLARS.

THE UBIQUITY AND PRECISION OF THIS FIGURE RAISES SUSPICIONS THAT IT HAS BEEN LIFTED FROM A POLICY PAPER--PERHAPS AMONG THOSE BEING PREPARED FOR KARDELJ.

4. ECONOMIC MATTERS KARDELJ IS MOST LIKELY TO RAISE INCLUDE THE FOLLOWING:

- A) U.S. GENERALIZED SYSTEM OF PREFERENCES (GSP). THE YUGOSLAVS WOULD LIKE TO SEE THE DOLLAR LIMITS PER PRODUCT RAISED AND CERTAIN PRODUCTS ADDED TO THE LIST OF PRODUCTS ELIGIBLE FOR THE GSP. THEY CLAIM THAT REMOVAL OF COPPER AND COPPER-BASED PRODUCTS FROM THE GSP LIST HAS SUBSTANTIALLY DAMAGED THEIR EXPORTS TO THE U.S. IN 1977. THEY WOULD ALSO LIKE TO SPLIT SOME OF THE EXISTING PRODUCT CLASSIFICATIONS, PARTICULARLY WOOD PRODUCTS, IN ORDER TO FACILITATE INCREASED EXPORTS TO THE U.S. UNDER THE PROGRAM.
- B) OPIC INSURANCE. THE YUGOSLAVS ARE GREATLY CONCERNED ABOUT THE POSSIBILITY THAT NO NEW INSURANCE WOULD BE ISSUED FOR U.S. INVESTMENTS IN YUGOSLAVIA. IN LIGHT OF THIS UNCERTAINTY OVER CONTINUED OPIC INSURANCE WE MIGHT ALSO EXPECT QUESTIONS ABOUT U.S. COMMITMENT TO OTHER LDC STATUS--RELATED PROGRAMS, INCLUDING GSP. WE SHOULD ALSO BE PREPARED TO FIELD QUESTIONS ABOUT U.S. PERCEPTIONS OF YUGOSLAV LDC STATUS IN MULTILATERAL LENDING ORGANIZATIONS.
- C) EXIM FINANCING. BESIDES THE SUPERGUARANTEE QUESTION, THE YUGOSLAVS CLAIM THAT SEVERAL OTHER ASPECTS OF THE EXIM PROGRAM COMPARE UNFAVORABLY WITH SIMILAR LIMITED OFFICIAL USE

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PAGE 03 BELGRA 05463 121530Z POSS DUPE

- PROGRAMS IN COMPETITOR PROGRAMS. THEY CLAIM THAT OUR INTEREST RATES ARE HIGHER; THEY ARE UNHAPPY WITH THE POLICY OF GUARANTEES AS OPPOSED TO DIRECT FINANCING, AND THEY FEEL THAT THE COST OF THE GUARANTEE ITSELF AND THE COMMITMENT FEE FOR THE GUARANTEE ARE BOTH TOO HIGH.
- D) EXCON PROBLEMS. ALTHOUGH THE DIVERSION REPORT MAY BE IN OUR HANDS BY THE TIME OF THE VISIT, THE YUGOSLAVS ARE VERY ANXIOUS TO HAVE THE SIX FIRMS ACCUSED BY THE U.S. OF DIVERSIONS RESTORED TO U.S. GOOD GRACES. SEVERAL OF THESE FIRMS HAVE BEEN IMPORTANT CHANNELS OF U.S. TECHNOLOGY INTO THE YUGOSLAV ECONOMY.
  - E) BALANCE OF TRADE. YUGOSLAV STATISTICS SHOW THAT BILATERAL TRADE AFTER FIVE MONTHS IS VERY UNEVEN, WITH YUGOSLAV EXPORTS OF \$120 MILLION DOLLARS AND IMPORTS FROM THE U.S. OF 246 MILLION DOLLARS. ALTHOUGH U.S. FIGURES MAY DIFFER SIGNIFICANTLY, THE YUGOSLAVS WILL NEVERTHELESS BE PRESSING TO BALANCE THIS TRADE.
  - F) FINALLY, THERE IS A POSSIBILITY THAT KARDELJ MAY PROPOSE SOME FORM OF NEW TRADE COOPERATION, EITHER USING EXISTING CHANNELS (A REVITALIZED U.S.-YUGOSLAV ECONOMIC COUNCIL) OR PROPOSING SOMETHING RESEMBLING ONE OF THE MANY MIXED COMMISSIONS GOY HAS ESTABLISHED

WITH OTHER TRADING PARTNERS.

5. WE WILL BE LOOKING FOR MORE SPECIFICS AND WILL  
REPORT AS THEY DEVELOP.  
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## Message Attributes

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**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
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**Review Markings:**  
Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009